

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16560
December 11, 2001**

R E S O L U T I O N

RESOLUTION T-16560. PACIFIC BELL TELEPHONE COMPANY (U-1001-C). REQUEST FOR APPROVAL OF PRICE CAP MECHANISM, IN COMPLIANCE WITH DECISION 89-10-031, AND CORRESPONDING ADJUSTMENTS TO SURCHARGES WHICH WILL BE EFFECTIVE ON JANUARY 1, 2002.

BY ADVICE LETTER NO. 22222 FILED ON OCTOBER 1, 2001, AND
BY ADVICE LETTER NO. 22222A FILED ON OCTOBER 19, 2001.

SUMMARY

This Resolution authorizes Pacific Bell (Pacific) to decrease its annual revenue by \$24,819,000, effective January 1, 2002. A summary of the price cap filing calculation of the adopted revenue adjustment is shown in Appendix A. A summary of the adopted surcredit is shown in Appendix B. A summary of the adopted surcredit is shown in Appendix B

Pacific requested an annual revenue decrease of approximately \$24,819,000 due to impacts of exogenous changes (Z-Factors) consisting of Gain on Sale of Land, Intervenor Compensation, Pacific Telesis/SBC Merger Refund, and Local Competition Cost Recovery.

BACKGROUND

New Regulatory Framework

In Decision (D.) 89-10-031 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for Pacific and GTE California Incorporated (GTEC), which is now known as Verizon California Incorporated. The decision stated:

This new regulatory framework is centered on price indexing mechanisms with sharing of excess earnings above a benchmark rate of return level.

Following a startup revenue adjustment (given in D.89-12-048), ...prices for the utilities' basic monopoly services and rate caps for flexibly priced services will be indexed annually according to the Gross national Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment of 4.5%.

The indexing formula also allows for rate adjustments for a limited category of exogenous factors whose effects will not be reflected in the economy-wide GNP-PI. While all such costs cannot be foreseen completely, we recognize that the following factors (called Z-factors): changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

However, the Commission did not authorize Z-factor treatment for all unforeseen or exogenous factors. In D.89-10-031, the Commission stated that:

...Normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would be excluded as Z-factor items.

In D.94-06-011, the Commission ordered Pacific to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) commencing with Pacific's 1995 price cap filing. In addition, the Commission adopted a productivity factor of 5% for Pacific's 1995 price cap filing.

In D.94-09-065, the Commission authorized Pacific to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

In 1995, the Commission issued D.95-12-052 regarding the second triennial New Regulatory Framework review. In Ordering Paragraph No. 4 of that decision, the Commission suspended the application of the GDP-PI minus productivity factor

formula used in price cap regulation of GTEC and Pacific until further order of this Commission or until a final decision is issued in the next triennial review.

In October 1998, the Commission issued D.98-10-026 regarding the third triennial review of the NRF. The order continues the suspension of the GDP-PI minus productivity factor formula, suspends for the first time the sharing mechanism, permanently eliminates the depreciation review, replaces Z-factors with limited exogenous (LE) factors, and effectively imposes a cap on residential services by keeping price caps generally. The decision also identifies seven Z-factors that should be recovered until fully implemented, which include, gain on sale of land and the merger refund authorized by D.97-03-067.

The order also specifies that, in the future, LE cost recovery is confined to recovery for cost increase or decreases resulting from (1) items mandated by the Commission and (2) changes in total intrastate recovery resulting from changes between federal and state jurisdiction. Recovery of Commission mandated cost changes must be annualized in the underlying Commission Decision.

Pacific's Price Cap Filing

On October 1, 2001, Pacific filed its 2002 price cap advice letter (A.L. 22222) filing to comply with D.89-10-031. In this filing, Pacific identified One-Time Other Adjustments to its revenues (reduction in parenthesis)

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|--|------------------------|
| • Gain on Sale of Land | \$ 0 |
| This is a one-time adjustment to reflect the gains on sale of land. | |
| • Intervenor Compensation | \$ 81,000 |
| This is a one-time adjustment to reflect recovery for participation or intervention in Commission Proceedings governed by the provisions of Division 1, Part I, Chapter 9, Article 5 (beginning with section 1807) of the Public Utilities Code. | |
| • Pacific Telesis/SBC Merger Refund | (\$ 68,650,000) |
| This is a one-time revenue adjustment to reflect a yearly step-down rate as mandated by D.97-03-067. | |
| • Local Competition Cost Recovery | \$ 43,750,000 |
| This is an adjustment to reflect recovery of local competition costs, including interest, over a one-year period. | |
| • Total Revenue Adjustment | (\$ 24,819,000) |

As shown above, the net result of the One-Time Other Adjustments Proposed by Pacific is a decrease of \$24,819,000 in Total Revenues. To recover this revenue, Pacific Requests authority to modify:

1. The current surcredit to be applied to all IntraLATA Exchange and Private Line Service with the exception of Category III Services and the taxes and surcharges currently listed in the tariffs from -1.647% to -1.720%.
2. The surcredit to be applied to all IntraLATA Toll Services currently listed in the tariffs from -1.649% to -1.722%.
3. The surcredit to be applied to all IntraLATA Access Services currently listed in the tariffs from -1.653% to -1.726%.

NOTICE/PROTESTS

Pacific states that a copy of the Advice Letter, and related tariff sheets were mailed to interested utilities and other parties. Notice of Advice Letter No. 22222 was published in the Commission Daily Calendar on October 3, 2001.

No protests were filed.

DISCUSSION

Gain on Sale of Land

Decision 94-06-011 adopted the settlement agreement between Pacific Bell and the Division of Ratepayer Advocates in Application 92-05-004 as it relates to gain on sale of land. The settlement agreement, included as Appendix B to the Decision, states that for sales which occurred in 1997 and beyond, Pacific will return 50% of the gain on sale directly to ratepayers as one-time rate adjustments in the annual Price Cap filings; the remaining 50% will go to shareholders.

Consistent with D.94-06-011, Pacific identified a total gain on sale of land in the amount of \$86.66. The ratepayers' share is \$43.33. The amount of the gain to ratepayers is immaterial and does not affect the calculation of the surcredit.

Intervenor Compensation Recovery

Decision 96-04-063 confirmed that Pacific was entitled to recover intervenor compensation, but concluded that Pacific's rates shall remain subject to refund or adjustment pending completion of an OII. In Resolution T-16265, the Commission agreed that data provided by Pacific appeared to demonstrate that there was no recovery of intervenor compensation in the start-up revenue period. Therefore it would be equitable to allow Pacific to recover intervenor compensation, in accordance with Decision 96-04-063, where the amount shall remain subject to refund or adjustment when the OII is terminated.

Pacific is seeking recovery in the amount of \$81,000 as a one-time payment to the Utility Reform Network (TURN) dated 8/17/01. From September 2000 through August 2001, Pacific paid \$106,197.41 (including interest) for intervenor compensation awarded by the Commission. After applying the applicable intrastate separations factor of 0.766, the intrastate amount is \$81,000.

Pacific calculated the interest portion of this intervenor compensation payment for the period beginning 3/20/01 and ending 9/3/01. Since Pacific's check was dated 8/17/01, the interest calculations for 8/18/01 through 9/3/01 result in an overpayment of \$175.04. This difference is immaterial and does not affect the surcharge calculation. We adopt the one-time revenue adjustment of \$81,000 for recovery of intervenor compensation.

Pacific Telesis/SBC Merger Refund

Decision 97-03-067 granted Pacific Telesis Group and SBC Communications, Inc. approval of an indirect change in control of Pacific from a wholly-owned subsidiary of Telesis to a second-tier subsidiary of the combined company that resulted from the merger with SBC, with Pacific remaining the subsidiary of Telesis.

Ordering Paragraph 1.a of Decision 97-03-067 ordered Pacific to adjust its rates downward by \$68,650,000 in 2002 as specified in Table 1 attached to that decision. This adjustment will be made in Pacific's advice letter filing to implement rate changes on January 1, 2002 by means of a Rule 33 adjustment to the surcharge for exchange, toll and access services.

Pursuant to Decision 97-03-067, we adopt the one time revenue adjustment of \$68,650,000, reflecting the yearly step-down rate.

Local Competition Cost Recovery

Decision 00-09-037 granted the Joint Motion for Adoption of the Proposed Settlement relating to the recovery of Pacific's Local Competition Implementation Costs. Pursuant to this decision, Pacific was authorized to include an implementation cost surcharge in its Annual Price Cap filing beginning January 1, 2001 to recover \$43,750,000 per year for a two year period to be applied to exchange, toll and access services.

We adopt Pacific's request to recover the adjustment of \$43,750,000 resulting from the Local Competition Implementation Cost as mandated by Decision 00-09-037.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311 (g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. On October 3, 2000, Pacific filed its price cap filing A.L. No. 21408, and requests the following adjustments in its revenues:

• Gain on Sale of Land	\$ 0
• Intervenor Compensation	\$ 81,000
• Pacific Telesis/SBC Merger Refund	(\$ 68,650,000)
• Local Competition Cost Recovery	\$ 43,750,000
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• Total Revenue Adjustment	(\$ 24,819,000)

2. Pacific proposes that its billing base for calculating the 2002 surcharge/surcredit is \$5,840,723,000.
3. Pacific requests to adjust the \$24,819,000 decrease in revenue requirements by applying:
 - a) -1.720% surcredit to local exchange services with the exceptions of Category III Services, access charges listed in Schedule No. 1, and surcharges currently listed in Pacific's tariffs.
 - b) -1.722% surcredit to intraLATA toll (Schedule No. A2)
 - c) -1.726% surcredit to access services (Schedule No. A2)

4. Pacific's revenue adjustment request of \$81,000 to reflect recovery of Intervenor Compensation should be granted.
5. Pacific's revenue adjustment of (\$68,650,000) to reflect the yearly step-down rate should be granted.
6. Pacific's revenue adjustment of \$43,750,000 to reflect recovery from local competition cost, including interest, should be granted.

THEREFORE, IT IS ORDERED that:

1. Pacific shall decrease its annual revenue by the total proposed revenue adjustment of \$24,819,000.
2. Pacific shall implement billing surcredits reflecting the revenue requirement decrease ordered in Ordering Paragraph 1, applied to a total billing base of \$5,840,723,000 for intraLATA exchange and private line services, intraLATA toll services, and intraLATA access service, to become effective on January 1, 2002, subject to review and approval by the Commission's Telecommunications Division. Adopted surcredits are shown in Appendix C.
3. Advice Letter No. 22222 and Supplement Advice Letter No. 22222A will be marked to show they have been approved with modification by Resolution T-16560.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on December 11, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

APPENDIX A
Resolution T-16560

Pacific Bell Telephone Company
2002 Price Cap Filing
\$ (in Thousands)

One-Time Other Adjustments	Pacific Proposed Revenue Impacts	Adopted Impacts
Gain on Sale of Land	\$ 0	\$ 0
Intervenor Compensation	\$ 81	\$ 81
Pacific Telesis/SBC Merger Refund	\$ (68,650)	\$ (68,650)
Local Competition Cost recovery	\$ 43,750	\$ 43,750
Total	\$ (24,819)	\$ (24,819)

APPENDIX B
Resolution T-16560

Pacific Bell Telephone Company.
2002 Price Cap Filing

	Pacific Proposed Surcredit	Adopted Surcredit
Access	(1.726%)	(1.726%)
Local	(1.720%)	(1.720%)
Toll	(1.722%)	(1.722%)